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THE JOURNAL OF POLITICAL ECONOMY

VOLUME 17

OCTOBER—1909

NUMBER 8

THE PUBLIC DEBT OF NEW ZEALAND

The most striking fact connected with the financial affairs of New Zealand and the Australian states is the enormous size of their public debts. The net public debt of New South Wales per head of the population is £54 (\$262); that of Victoria is £42 (\$204); and the net debt of New Zealand is £63,524,961 (\$308,000,000), or £64, 16s (\$314) per head of the total population.¹ Compared with these figures the debts of most of the other countries of the world are very small. The net debt of the United States, on July 1, 1907, was only \$878,596,755 (£180,000,000), or about \$10 (£2) per head. If the debt of the United States were relatively as great as that of New Zealand it would amount to about \$26,000,000,000 (£5,000,000,000). Canada has a debt per head of about \$42 (£8); Great Britain, \$80 (£16, 12s.); France, \$145 (£30).²

But a mere comparison of per-capita debts of various countries gives a very inadequate idea of the real burden of debt which they have to bear, and is by no means fair to Australia and New Zealand. The debts of European countries have been for the most part incurred in time of war, for necessary but unproductive expenditure, whereas a very large part of the New Zealand and Australian debts has been contracted for the building of railways and other productive or semi-productive invest-

¹ *Year-Book*, 1908, p. 573.

² *Statesman's Year-Book*, 1908.

ments. The following analysis of the gross public debt of New Zealand, as it stood on March 31, 1908, at a total of £66,453,897, shows approximately the amounts raised or voted under various heads.

(a) <i>Services</i> —	
Railways	£21,271,000
Lands, improvements (roads and bridges)	6,092,000
Public works and buildings	4,771,000
Immigration	2,435,000
Maori war	2,360,000
Land-purchases	2,247,000
Defense	1,947,000
Telegraphs	1 196,000
Goldfields and coal-mines	815,000
Lighthouses and harbors	543,000
State coal-mines	100,000
Tourist and health resorts	99,000
Scenery-preservation	30,000
State fire insurance	2,000
(b) <i>Investments</i> —	
Purchase of land for settlements	5,890,000
Advances to settlers	4,110,000
Loans to local bodies	2,881,000
Bank of New Zealand preference shares	500,000
New Zealand Consols	478,000
Advances to workers	205,000
Reserve-fund securities	800,000
(c) <i>Other</i> —	
Deficiencies in revenue, charges and expenses of raising loans, provincial liabilities, and miscellaneous expenditure	7,681,000

Of the gross debt, as shown here, about £14,864,000 represents investments that are directly productive, from which the full amount of interest is recovered, and which, therefore, are no burden on the taxpayers. To this amount may be added the railway debt of £21,271,000; for, although the railways do not earn the full interest upon their capital cost of £26,735,140, they do earn interest on the railway debt, if we waive the contention of many critics that there ought to be an allowance for depreciation, or that part, at least, of “additions to open lines” should be charged to revenue. Of the remaining debt, perhaps £3,000,000 may be regarded as directly productive, since the Post and Telegraph Department earned, in the year 1907–8, a net revenue of £113,000 which was available for interest payments, if we ignore

a large sum spent every year on the upkeep of public buildings.³ To this should further be added the accumulated sinking fund, amounting to £2,928,936. There is, then, a total of about £42,000,000 of directly productive assets, leaving a net debt of about £24,000,000 (\$120,000,000), or £24 (\$120) per capita, the interest on which must be paid out of taxes.

This is still a very large debt, involving an annual expenditure for interest of about £800,000 (\$4,000,000); but much of the money was borrowed for roads and bridges and other public works, which, although not directly productive of revenue, have greatly furthered the development of the country. Against the net debt the government has a large asset in the crown lands, valued at £18,919,000, but derives from them no contribution to the annual burden of interest, for the territorial revenue is exceeded by the territorial expenditure. The public domain would yield a net revenue, were it not for certain payments to local bodies, amounting to £134,285 in the year 1907-8.⁴ Unfortunately, too, the proceeds of land sales are turned into the Consolidated Fund as ordinary revenue and spent from year to year, although some of the land has been bought from the Maoris with borrowed money. The public domain, then, is a vanishing asset, while the public debt goes on increasing and there is no provision for ultimate payment.

But the greatest asset that a country can have is a large and prosperous population, and, since the power to tax is unlimited, it matters little whether the government has a public domain yielding rent, or a rich territory in private hands paying taxes. Certainly, the net debt is small in comparison with the total private wealth of the Dominion, which in 1906 was estimated at £304,654,000, being £335 (\$1,628) per head of the total population—a greater per-capita wealth than that of any other country in the world, although the per-capita wealth of the northern states of the Union is probably greater than this. Many people in New Zealand, however, both rich and poor, are heavily in debt. On March 31, 1907, the amount of loans secured by

³ *Annual Report of the Post and Telegraph Department*, 1908.

⁴ *Year-Book*, 1908, p. 304.

mortgage was £59,097,070. The local governing bodies, too, have a gross debt of £12,547,435. The people of New Zealand, in both their public and their private capacity, are heavy borrowers; but their assets greatly exceed their liabilities, and, unless a period of crisis and liquidation should come, they will have no serious trouble in meeting all their obligations and securing the profits that come to the judicious borrower in a time of rising prices.

In so far as the burden of debt is concerned, the financial condition is much better than it was in 1870, when Sir Julius Vogel promulgated his celebrated public-works policy. At that time the public debt was only about £8,000,000, but the population was only 250,000 and the people were by no means so prosperous as they are to-day. Moreover, there were practically no productive assets, a large part of the debt having been incurred for carrying on the Maori war, for roads and for other expenditure not directly productive of revenue. The net debt at that time may be taken at about £32 (\$160) per capita, as compared with £24 (\$120) at the present time. Also, the burden of interest was relatively greater in 1870, when the government borrowed at about 5 per cent., than it is now, when about 4 per cent. is paid. Then the annual burden of interest was about £1,12s. (\$8) per head; now it is about £1 (\$5).

The government was in a bad way in 1870, but the approaching crisis was probably averted or postponed by the daring, not to say reckless, immigration and public-works policy of Vogel. For the next eight or nine years the colony lived on borrowed money. The public debt rose to £24,000,000, private borrowing was on a still larger scale, and there was a tremendous boom in land values, while the price of wool was slowly falling. Then came the crisis of 1879, the most disastrous that New Zealand has known. Reeves says: "The boom broke amid much suffering and repentance. In some districts three-fourths of the prominent colonists were ruined."⁵ Mr. Reeves also says: "It was not the public borrowing of the colony, but the private debts of the colonists, which, following the extraordinary fall in the

⁵ *New Zealand*, "The Story of Empire Series," p. 150.

prices of their raw products between 1873 and 1895, plunged so many thousands into disaster.”⁶ But it is not possible to distinguish in this way between public and private borrowing when both were carried on on so large a scale. The period was a time of excessive borrowing and inflation and the crisis was the natural result.

The next twelve years (1879-91) were a period of liquidation, economy, and slow but steady growth and recuperation. The statesmen of this time, like Sir Harry Atkinson and Sir Robert Stout, forced to a policy of prosaic economy, get little credit for the good work which they accomplished. Seddon was fond of calling it the “soup-kitchen period,” and yet in that time the population of the colony increased by 36 per cent. In the succeeding twelve years (1891-1903) it increased by only 30 per cent. During the eight years covered by the administrations of Atkinson and Stout (1883-91) only about £8,000,000 was added to the public debt. The effort to live upon income rather than loans was good for the government and for private citizens as well, and a solid foundation was laid for the extraordinary prosperity that began about 1897 and continued until 1908. Besides, new resources were developed, particularly the meat-freezing industry. The first shipment of frozen mutton was made on February 15, 1882, but it was not until 1890 that the value of meat exported exceeded £1,000,000. In 1897 it was valued at £3,420,664, or about 17 per cent. of the total value of the exports of the Dominion. Much of the prosperity of recent years has been due to the development of this one industry. The total exports for the year 1890 were valued at £9,428,761, a figure not reached again until 1897, when the total exports were valued at £9,596,267, after which they increased by leaps and bounds, reaching the enormous value of £19,783,138 in the year 1907.

The election of December 5, 1890, the first under the new principle of manhood suffrage, marks the end of the political domination of the large landholders and the rise of a thorough-going democracy consisting chiefly of the working-class of the towns, the small shopkeepers, and the small farmers.

⁶ *Ibid.*, p. 151.

The leader of the new democracy was Hon. John Ballance, who became premier on January 24, 1891. The premier died on April 27, 1893, and on May 1 was succeeded by Hon. Richard J. Seddon, who remained in power until his death on June 10, 1906. The present premier, Sir Joseph Ward, took office on August 6, 1906. During this period were passed a large number of acts for the benefit of the classes in control of the government. Some of these acts did not involve any increase in the public debt; others involved the borrowing of large sums. The following table shows the increase of the gross public debt since March 31, 1891, and the chief items of expenditure from loans.

Gross public debt, 31st March, 1908	£66,453,897
Gross public debt, 31st March, 1891	38,830,350
Increase	£27,623,547
Native-land purchases	£ 765,675
Land-settlement (ncluding Cheviot)	5,890,046
Loans to local bodies	2,603,100
Lands improvement	500,000
Advances to settlers	4,110,000
Advances to workers	205,000
Bank of N.Z. preference shares	500,000
N.Z. Consols	478,449
District railways	47,000
Public works	11,632,550
Increase by conversions	783,499
Sinking-fund accretions	1,777,000
Naval and military settlers	27,226
Advances to dairy companies	1,781
State coal-mines	140,000
State fire insurance	2,000
Scenery-preservation	30,000
Reserve-fund securities	800,000
	£30,293,326
Less Redemptions—	
Consolidated Stock Act, 1884,	
debentures	1,384,420
Other debentures	1,285,359
	2,669,779
Total net increase	£27,623,547

While during this period the public debt has increased by an enormous sum, by far the greater part has been put into directly productive investments, and probably not more than £5,000,000 of borrowed money has been spent on public works that are not directly productive of revenue. With the development of the

country the revenue of the government has greatly increased and its financial condition has improved. Although the debt per capita has increased, the annual interest payments per capita have fallen, because of a fall in the rate of interest. Also the annual interest payments, which in the year 1891-92 absorbed 43 per cent. of the total revenue of the Consolidated Fund, in the year 1907-8 absorbed only 24 per cent. of that revenue, the revenue having been augmented because of a great increase in the value of imports as well as by the new taxes that have been imposed.

But it should not be forgotten that this improvement has taken place in a time of rising prices of wool, meat, dairy produce, and other exports, and that a policy of borrowing, while usually successful in times of prosperity, may become a source of grave danger in the event of crisis and industrial depression. It is quite conceivable that the railways and other investments, which now carry a large part of the interest on their cost, might become less productive and throw greater burden upon the taxpayers when their ability to pay was materially decreased. The most profitable enterprises in which the government is engaged do little more than pay their way. They have no considerable margin of profit or surplus which could be used in case of emergency, no buffer to receive the shock of loss, which must fall with full force upon the taxpayers or come out of loans which might be hard to negotiate. The government appears to realize the danger of such a contingency, especially since the recent decline in the value of exports, and a good deal has been said about retrenchment though little has been done to that end. Indeed, there is danger in retrenchment, after a long period of borrowing, with the accompanying inflation of land values and expansion of credit, and the government might precipitate the very crisis which it fears, by restriction of loans and economy in expenditure.⁷

⁷ Since this was written the financial stringency, which began in the winter of 1908, has become more severe, the value of exports has fallen off, the government has been unable to supply the demand for loans to settlers and workers, loans from private lenders have been hard to obtain, the number of the unemployed has greatly increased and conditions have been very serious during the

The extensive borrowing of recent years has probably caused a good deal of inflation, especially in land values. The unimproved value of land was estimated at £84,401,244 in 1891; in 1907 it was £149,682,689; and in 1908 it was £161,324,763. Yet the total unimproved value of land is not vastly in excess of the combined funded debt, public and private, and a marked decline in the prices of the great staples, wool and meat, might cause serious trouble. But the holders of governmental securities are perfectly safe, for they have a prior lien on all the resources of the Dominion. The government, therefore, has little difficulty in borrowing large sums every year at about 4 per cent. interest. Four per cent. debentures are floated at about par; 3½ per cent. loans are negotiated at a discount. Strong objections are urged against the government's borrowing in the local market and thus making it harder for people to borrow for ordinary purposes. The government generally borrows in England; sometimes in Australia; and lends far more than it borrows in New Zealand. There is a good deal of local capital available for gilt-edged loans at low rates of interest, and of late years much New Zealand capital has been sent abroad for investment, to Queensland and other new fields of enterprise.

Although the public debt is increasing all the time, and must go on increasing, the government has maintained a sinking fund for many years. In 1878 it amounted to £1,678,127; in 1891 it was £1,487,042; from 1894 to 1900 it was less than £1,000,000; in 1908 it was £2,928,936, mostly invested in New Zealand

past winter (1909). In view of the serious condition of affairs the government has inaugurated a drastic scheme of retrenchment in the civil service, involving the consolidation of departments, the superannuation of veterans, the temporary dismissal of juniors, and other economies which, Sir Joseph Ward says, "will effect a total saving exceeding a quarter of a million sterling, and this without impairing efficiency or inconveniencing the public in any way" (*The Press*, Christchurch, April 3, 1909; speech of Sir Joseph Ward at Upper Hutt, April 2). Commenting on these proposals, Mr. James Allen, M.P. for Bruce, who has time and again advocated reform in public expenditure, but in vain, says: "I believe the departments have been growing inordinately and have said in the House, and say again, that some of them have got completely out of hand. They have been running the country and not the country running them" (*The Evening Post*, Wellington, April 5, 1900).

securities of various kinds. The advisability of maintaining such a fund has often been questioned. Mr. William Fraser, member for Wakatipu, said in the House:

I do not think there is any use whatever in a colony which is continuing to borrow to pretend to build up a sinking fund when we know perfectly well that, directly or indirectly, the money we are setting apart is derived from borrowed money. I am very sure of this: that the public creditor at home recognizes that fact, and is not likely to lend us money any more cheaply because we make a pretense of this thing.⁸

But Mr. Massey, the leader of the opposition, defended the sinking fund: "In order to show our creditors that we intend to meet our obligations at the due date there should be something in the way of a sinking fund."⁹ The sinking fund, too, has been found useful in the raising of loans, especially when it could be temporarily hypothecated as a sort of collateral security. This has been done with the £800,000 of imperial-guaranteed debentures issued under the Immigration and Public Works Loan Act of 1870, which were not sold to the public but held in London by the colony's bankers and "available for the purpose of obtaining temporary advances from time to time." These debentures matured on June 1, 1907, and, in the same year Parliament authorized a new loan of £800,000, to be invested in gilt-edged securities to be held for the same purpose. Sir Joseph Ward said:

It is essential that we should have the necessary gilt-edged securities in London for the purpose of hypothecation from time to time, as the circumstances may arise, and particularly in the event of a crisis arising in the Old Country or to meet any unusual condition that the colony's requirements might call for.¹⁰

The sinking fund, then, is like a substantial balance in the bank, useful for many purposes, though not intended, as its name might imply, to secure the ultimate payment of the public debt. It has not always been used for legitimate purposes, but latterly its integrity has been respected, it has been greatly augmented, both from loans and from revenue, and it now forms an

⁸ *Parliamentary Debates*, Vol. CXXXIX, p. 578, July 24, 1907.

⁹ *Ibid.*, p. 546.

¹⁰ *Parliamentary Debates*, Vol. CXL, p. 130, August 8, 1907.

important part of the financial system. But the public debt will never be paid off; on the contrary, it must increase from year to year. Speaking of the addition of £2,274,857 to the debt for the year 1907-8, Sir Joseph Ward said:

This may appear to be a large increase, but so long as the policy to acquire land for closer settlement, construction of railways, roads, and bridges, lending to local bodies, and making advances to settlers is approved of by Parliament, the public debt of the Dominion must go on increasing, and it must not be forgotten that our assets, many of them directly interest-bearing, proportionately increase. A large portion of this increase of debt is devoted to expenditure of a reproductive character.¹¹

Of late years the government has somewhat resisted the importunities of those who would have it borrow for unproductive expenditure, and the sound financial principle seems to be gaining ground that while productive investments may be made out of borrowed money, expenditure for other purposes should come out of revenue. In the past there has been great laxity in this regard, and money has been borrowed, not only for public buildings, roads, and bridges, but for the maintenance of these, for salaries and other expenses of the Public Works Department, for expenses of raising loans, for grants to mining prospectors, for immigration, for the purchase of lands—the price of which, when sold, went into the Consolidated Fund as ordinary revenue—and for more questionable purposes.

It is often said that the making of roads and bridges has enormously increased the value of private lands, but this is an argument in favor of special betterment taxes instead of loans. Certain public buildings, as railway stations and post-offices, are directly productive, while others are not, and certainly the maintenance of all public buildings should be charged to revenue. The government claims, and rightly, that it does not need to insure public buildings against fire, but if the revenue is to be spared

¹¹ *Budget*, 1908, p. 4. Notwithstanding the financial stringency, the government, through the premier, Sir Joseph Ward, has recently offered to provide a "Dreadnaught" for the British navy, the cost of which will involve a large increase in the public debt, decidedly "unproductive" in character. But the people of New Zealand fear the colonial ambitions of Germany, strongly believe in the "yellow peril," and are very loyal to the British empire.

the cost of insurance premiums, there is some reason to think that the cost of new buildings should come out of revenue, or, at least, out of some fund derived from revenue. The question of raising a loan for new parliament buildings to replace those recently burned (December 11, 1907) is a case in point.

The fact that the Public Works Fund is partly derived from revenue makes it impossible to tell whether a given expenditure is made from revenue or from loans, but the amount expended out of this fund for unproductive purposes has greatly exceeded the contributions from the Consolidated Fund. From the year 1870 to March 31, 1908, the sum of £46,702,087 was spent out of the Public Works Fund, of which £39,442,887 was received from loans, £6,430,000 from the Consolidated Fund, and the balance from other sources. The items of expenditure are as follows:

NET EXPENDITURE OF PUBLIC WORKS FUND FROM
1870 TO MARCH 31, 1908

Expenditure on—

Immigration	£ 2,186,711	17s.	2d.
Public works, departmental	568,385	7	6
Railways, including surveys of new lines	24,176,384	6	3
Roads	7,861,467	17	5
Land-purchases	2,035,748	5	9
Development of goldfields	786,656	9	3
Telegraph-extension	1,479,736	3	6
Public buildings	3,804,597	3	0
Lighthouses, harbor-works, and defenses	1,024,519	10	9
Contingent defense	888,168	8	6
Rates on native lands	68,644	15	10
Thermal springs	14,599	13	2
Tourist and health resorts	158,567	10	9
Lands improvement	24,575	0	1
Charges and expenses of raising loans	1,235,641	9	11
Coal-mines	10,835	8	0
Interest and sinking fund	218,500	0	0
Payment to Midland Railway bondholders	150,000	0	0
Utilization of water-power	8,347	18	11

Total £46,702,087 5s. 9d.

In the financial year ending March 31, 1908, the sum of £2,109,882 was spent on services provided by the Public Works Fund. Of this amount £800,000 was derived from the surplus revenue of the Consolidated Fund, and the balance from loans. The money was expended as follows:

Railways	£1,280,217
Roads	323,717
Public buildings	226,035
Telegraph-extension	155,491
Contingent defense	18,574
Tourist and health resorts	45,048
Departmental	18,244
Immigration	9,131
Purchase of native lands	2,190
Development of goldfields	8,632
Lighthouses, harbor-works, and harbor defenses	6,863
Lands improvement	9,561
Rates on native lands	837
Utilization of water-power	315
Charges and expenses of raising loans and renewing debentures	5,027
Total	£2,109,882

If one were to add together all the items of unproductive expenditure, as expenditure for roads, some public buildings, contingent defense and that part of "additions to open lines" which should be charged to revenue, it is probable that the total would not equal the £800,000 derived from the Consolidated Fund. It may, therefore, safely be said that the money now expended on unproductive works is derived from revenue and not from loans. If, however, these items were charged directly to revenue, without being first transferred to the Public Works Fund, there would be little or no surplus, and the government, for obvious reasons, prefers to show a surplus.

Members of the opposition and other critics of the government take pleasure in scoffing at the surplus, and with reason. In the debate on the Budget for 1908, Mr. Fisher, member for Wellington Central said: "It is extraordinary that the country should borrow £1,000,000 and then end the year with a surplus of £700,000." Mr. James Allen, member for Bruce, is reported to have said: "The Public Works Fund was called upon to find money for services that in previous years had been charged, and rightly charged, to the Consolidated Fund . . . the object having no doubt been to make it appear to the public that there was a much larger surplus than really existed."¹² Mr. Lauren-

¹² *Evening Post*, Wellington, July 13, 1907.

son, member for Lyttleton, is reported to have said in the same interview :

To a very large extent I agree with the writer ("Nemesis") that there should be a more strict allocation of borrowed money in the direction of investment in reproductive works, and in reproductive works only. During a period of high national prosperity such as we are passing through at present, I believe the government would be justified in raising more money by way of taxation and less by way of loans, because one cannot help having an uneasy feeling that if bad times strike us we shall then not only be short of money ourselves, but, having taken full advantage of the money market during times of prosperity, we shall be unable to approach it successfully in the day of adversity.¹³

Mr. Massey, the leader of the opposition, said in the House, with regard to certain items: "These charges simply cannot be defended. Why are they so charged? Simply to enable the government to show a huge surplus at the end of the year."¹⁴ The writer of a series of articles in the *Evening Post* says: "In business, charges such as these would only be charged to capital account by weak and struggling concerns existing on a bolstered balance sheet."¹⁵ A more conservative writer makes the following statement :

It would no doubt be better, and the government would be on firmer ground, if revenue did not make quite so large a contribution to the Public Works Fund, and if, instead of doing that, it had charged upon it all items of a doubtful character, such as public buildings for ordinary governmental and not for revenue-producing purposes. In Australia new buildings, such as courthouses, police stations, hospitals, and schools, are charged to revenue, and New South Wales similarly treats the cost of post-offices.¹⁶

The discussion is well summed up by Mr. J. C. Thompson, member for Wallace, who says :

Even supposing that this reform is only a matter of bookkeeping, it would be far better to charge all the current expenditure to the consolidated revenue, and although the surplus might be smaller, at the same time it would be putting the correct position before the country. It is better to know one's true position than to live in a fool's paradise.¹⁷

¹³ *Evening Post*, July 13, 1907.

¹⁴ *Parliamentary Debates*, Vol. CXXXIX, p. 553, July 23, 1907.

¹⁵ *Evening Post*, October 6, 1908; article by "Nemesis."

¹⁶ *Evening Post*, July 10, 1907; article by "Senex et Juvenis."

¹⁷ *Parliamentary Debates*, Vol. CXXXIX, p. 604, July 24, 1907.

In fact, the government has listened to the financial critics and has lately begun to charge to revenue such items as maintenance of roads and public buildings, which were formerly charged to the Public Works Fund.

But whether derived from revenue or from loans, or whether expended for productive or unproductive purposes, an enormous sum is spent every year out of the Public Works Fund, and the question as to the proper distribution of this expenditure is of the greatest concern to the people of New Zealand. During the year 1907-8 the disbursements totalled £2,109,882 (\$10,254,000), apportioned as shown above. Presumably, the distribution is made according to "needs," but the concept of "needs" is very vague and most elastic. The government itself hardly knows what the Dominion needs in the way of developmental expenditure. In the case of roads and bridges, the greatest need appears to exist in the thinly settled back blocks, where it is possible to expend on roads more than the improved land is likely to be worth for years to come. In the case of districts already pretty well developed, it is not easy to distinguish between needs and wants. But the members of Parliament from every part of the Dominion come to Wellington prepared to enlighten the government as to the needs of their constituents, and the chief work of the members—that, at least, which best secures their re-election—seems to be the getting of appropriations of one kind and another from the Public Works Fund. Every part of the Dominion clamors for its "fair" share of expenditure, and to some extent the apportionment is made proportional to the political influence of the various electoral districts. Petitions for public works of every kind are showered upon the minister, demanding in the aggregate far more than the available funds. Most of these requests, therefore, must be denied, but the government does its best to be "fair" to everybody without making too many enemies, and the temptation to augment the fund by further borrowing is almost irresistible.

In the time of Seddon it was a veritable corruption fund and was confessedly used for political purposes. "Nemesis" says: "Proud as we are of our great statesman, there is little doubt

that one of the most potent instruments that maintained him in office for his record period was the clever manipulation of this fund.”¹⁸ Mr. Seddon himself said in Parliament: “I am not one of those who say that, other things being equal, I should not favor the district that was represented by one who helped to maintain the government in power.” At another time he said: “It is unreasonable and unnatural to expect the government to look with the same kindly eye on districts returning members opposed to the government as on those which returned government supporters.”¹⁹ The older settlements, like certain parts of the South Island, were naturally served first, while the newer parts had their turn later, and the older districts began to favor economy in expenditure and restriction of borrowing. But Mr. Seddon was not prepared to adopt this policy and said in Parliament, with even more than his usual frankness: “I say that until we have had a fair expenditure of public money out of loans upon each part of the colony, it is wrong of those parts that have had a fair share to say suddenly that there is to be no more borrowing.”²⁰

The Ward government, especially during the past year or two, has taken a stronger stand than this. Sir Joseph Ward said recently in the House:

Members had only to look at the order paper for this session and what did they find? They would find that there had been a universal demand from all sides of the House for far more money than the country could possibly provide. The government, if they did not resist this extraordinary demand, would not be fit to hold their positions on the Treasury benches.²¹

And yet, in the Budget of 1908, notwithstanding the hard times, Sir Joseph Ward proposes for the ensuing year an expenditure of £2,350,000 out of the Public Works Fund, of which no less than £650,000 was to be expended for roads and bridges.

Hon. gentlemen will see that an effort has been made to do even-handed justice to all classes of the Dominion, and I trust that by the means

¹⁸ *Evening Post*, July 5, 1907.

¹⁹ *Reformer*, Christchurch, No. 2, October, 1905.

²⁰ *Parliamentary Debates*, Vol. XCIX, p. 291.

²¹ *Parliamentary Debates*, Vol. CXL, p. 248, August 15, 1907.

which I have outlined every section of the country will be brought into closer harmony for the one great purpose—namely, the promotion of our national well-being and happiness.²²

When the Public Works statement was brought down later in the session (Sept. 22), the estimates were increased to £2,721,450 (\$13,226,000), of which £607,000 was to be expended on roads, in addition to £283,000 voted from the Consolidated Fund, making a total appropriation for roads of £890,000 (\$4,315,000), an amount much in excess of the anticipated surplus for 1908–9. The appropriations were unusually large because of the approaching election. The government, too, seems to make a practice of appropriating more than it actually spends. In the election of November, 1908, the Ward government was returned to power, but with a reduced majority.

In criticism of the Public Works statement, the *Press* very pertinently says:

One of the most regrettable results of the system under which the general government borrows money to carry on public works is that the amount of borrowing and the manner in which the money is allocated, are determined by the exigencies of the political situation, rather than by the dictates of economic prudence. The Public Works statement delivered by Hon. W. Hall-Jones last evening was a business-like document, but the trail of the general election is over it all. Our expenditure of borrowed money continues to grow at an alarming rate. It was less than a million per annum in 1900: this year two and three-fourths millions are asked for. The reckless manner in which we now rely on ever-increasing loans is all the more regrettable when it is borne in mind that a good deal of money is frittered away in political works, with the object of catching votes, while a considerable proportion is expended in so-called "additions to open lines," and other items which really ought to be provided for out of revenue. The taxpayers are again to be bribed with their own money.²³

In a similar vein the *Evening Post* says: "Under the present system roads and bridges must continue to be the current coin of political corruption, and there is not the faintest indication that the ministers have any intention of laying the axe at the root of this unlovely growth."²⁴

²² *Budget*, 1908, p. 21.

²³ *Press*, Christchurch, September 23, 1908.

²⁴ *Evening Post*, September 23, 1908.

The most common form of political corruption in the United States, the corrupting influence of railways and other business corporations, does not exist to any great extent in New Zealand, because of the prevalence of governmental and municipal ownership, but the concentration of economic power in the hands of the government has created a form of corruption which, while it may not be so bad morally, is far more wasteful from the economic point of view. That this form of political corruption is not more prevalent in the United States is not due to any special virtue on the part of American politicians, but solely to the fact that the government has relatively fewer functions to perform and less money to spend, and no one can doubt that it would flourish on American soil even more luxuriantly than in New Zealand, where it is held in check by the cabinet system, under which the budget is in the hands of a responsible ministry, and not, as in the United States, in the hands of relatively irresponsible committees.

The following quotation from a speech of Senator Francis E. Warren, of Wyoming, might have been uttered by almost any member of Parliament from the back country of New Zealand:

The position of a servant of the people in Congress is peculiar. His environment and surroundings in Washington form a constant temptation to him to become a statesman, so called, and indulge in large theoretical questions of government rather than engage in the real work of constructive legislation, such as getting appropriations and various favors for his own state, pensions for its old soldiers, and the thousand and one little things his constituents desire. From the older eastern and middle states, where the local wants and needs have long since been supplied, a member of the House or Senate can indulge himself and safely devote his time to oratory and statesmanship with glory to himself and without damage to his constituency. But the man from a young, virile, exacting western state, with pressing local needs, must spend his days, nights, and Sundays in hard, continuous, grinding work for his people, if he expects to win, doing the less glorious but more satisfactory duty of getting things.²⁵

There can be no doubt that the government of New Zealand has done much to foster the industries of the Dominion, and that economic development has been greatly stimulated by the ex-

²⁵ *Denver Republican*, June 26, 1908.

penditure of vast sums of borrowed money, but it seems probable that too much has been borrowed and that there has been a good deal of waste in expenditure. The ease with which the government has been able to borrow has been a temptation to extravagance which it has been unable to resist. The *Bulletin* says: "The Dominion has been enjoying a fictitious prosperity; land and property values have been artificial, nearly everything has been artificial."²⁶ Perhaps this is an extreme statement, for the *Bulletin* makes a special effort to check the Australian states and New Zealand in their career of borrowing, but the Dominion has certainly been living quite largely on borrowed money, has been very optimistic with regard to the future, and much inclined to shift the burden of development to the shoulders of posterity. True, posterity may be well able to bear the burden, especially since a large part of the interest will be carried by the various enterprises in which the government is engaged, but it is possible that the earning power of these enterprises, at no time great, may be reduced; that the prices of wool, mutton, and dairy produce may fall; and that it may become increasingly difficult for the government to effect loans. If all or any of these possibilities are realized, the position of the government will be unfortunate, for it is sailing very close to the wind, carrying much sail and little ballast, counting on fair weather and not well prepared for storms.

Among the remedies that have been suggested the following appear most deserving of mention:

1. The government should borrow only for works that are directly reproductive, yielding interest on their capital cost.
2. The railways and all other investments of the government should earn the full amount of interest on the capital cost, and a surplus besides, to cover any possible depreciation or any deficiency of revenue in time of crisis.
3. Roads and bridges should be paid for out of revenue, and at least half of the cost should be paid by the locality benefited, preferably by a betterment tax on land values.
4. Maintenance of roads and public buildings should be

²⁶ *The Bulletin*, Sydney, N. S. W., May 28, 1908.

charged to revenue, but the local governing bodies should bear the greater part of the expense of keeping up the roads.

5. The part of the public debt not represented by productive investments should be paid off gradually, whether by means of sinking funds or otherwise. The proceeds from the sale of public lands should be set apart for this purpose.

6. There should be greater publicity of public accounts and a system of post-audit instead of pre-audit as formerly. This reform was inaugurated by Act of Parliament in the session of 1908.

To effect all or any of these reforms it is desirable and necessary that criticism of public affairs should be encouraged and a strong public opinion created that will support the government in enforcing sound principles of public finance. Unless the people can be enlightened, and persuaded to prefer the general welfare to sectional interests, the only hope of reform lies in the unpleasant prospect of financial stringency which will compel economy by cutting off the supply of funds.

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